

**RULES
OF
THE DEPARTMENT OF INSURANCE
DIVISION OF INSURANCE**

**CHAPTER 0780-1-32
RELATING TO EXCHANGE-TRADED CALL OPTIONS**

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0780-1-32-.01 PURPOSE. The purposes of this regulation are: (1) to aid in the interpretation of the statutes with respect to the right of domestic insurance companies to enter into certain transactions in exchange-traded call options, as hereinafter defined and identified, and (2) to establish required procedures with reference to such transactions.

Authority: T.C.A. §§56-1-701, 56-3-302, 56-3-303, 56-3-304, 56-19-114, 56-21-104, 56-23-110, and 56-23-111.
Administrative History: Original rule filed January 21, 1976; effective February 20, 1976.

0780-1-32-.02 DEFINITIONS,

- (1) For the purposes of this regulation:
- (a) “call option” means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to purchase the number of shares of the underlying stock covered by the option contract.
 - (b) “exchange” means a national securities exchange registered under the Securities Exchange Act of 1934 which has been authorized to provide a market for option contracts pursuant to Rule 9b-1 under the Securities Exchange Act of 1934, as amended.
 - (c) “exchange traded” means traded on the floor of an exchange.
 - (d) “stock” means stock in which a domestic insurance company is authorized to invest its funds pursuant to the provisions of T.C.A. 56-3-302, 56-3-303, or 56-23-111.
 - (e) “escrow receipt” means an escrow receipt issued to The Options Clearing Corporation and a Clearing Member thereof with respect to escrowed stock held on deposit by a bank or other custodian approved by said Corporation for that purpose, all as described in the Registration Statement under the Securities Act of 1933 filed by said Corporation with Securities and Exchange Commission, as amended and supplemented from time to time.
 - (f) “escrowed stock” means stock with respect to which an escrow receipt has been issued.
 - (g) “closing purchase transaction” means the purchase, on an exchange but not otherwise, of an exchange-traded call option or options, the effect of which is to reduce or terminate the obligations of a call option seller with respect to an identical option or options.
 - (h) “closing sale transaction” means the sale, on an exchange but not otherwise, of an exchange-traded call option or options, the effect of which is to liquidate, in whole or in part, the holding of an unexercised and unexpired identical call option or options.

(Rule 0780-1-32-.02, continued)

Authority: T.C.A. §§56-1-701, 56-3-302, 56-3-303, 56-3-304, 56-19-114, 56-21-104, 56-23-110, and 56-23-111.
Administrative History: Original rule filed January 21, 1976; effective February 20, 1976.

0780-1-32-.03 SALE OF EXCHANGE-TRADED CALL OPTIONS. Any domestic insurance company can sell, on an exchange but not otherwise, exchange-traded call options solely with respect to stock which it owns, but cannot sell any other exchange-traded call options. Any domestic insurance company selling such an option: (a) shall enter into a custodial or escrow agreement which provides that its escrowed stock shall be kept segregated by the bank or other custodian from other stock or other securities owned by others, which are deposited with the same bank or other custodian, and (b) must obtain and retain in its possession a copy of an escrow receipt identifying with particularity the escrowed stock.

Authority: T.C.A. §§56-1-701, 56-3-302, 56-3-303, 56-3-304, 56-19-114, 56-21-104, 56-23-110, and 56-23-111.
Administrative History: Original rule filed January 21, 1976; effective February 20, 1976.

0780-1-32-.04 CLOSING PURCHASE TRANSACTIONS. Any domestic insurance company can engage in and effectuate closing purchase transactions.

Authority: T.C.A. §§56-1-701, 56-3-302, 56-3-303, 56-3-304, 56-19-114, 56-21-104, 56-23-110, and 56-23-111.
Administrative History: Original rule filed January 21, 1976; effective February 20, 1976.

0780-1-32-.05 OTHER PURCHASES OF EXCHANGE-TRADED CALL OPTIONS. Pursuant to and subject to the limitations of T.C.A. 56-306, any domestic insurance company can also purchase exchange-traded call options, on an exchange but not otherwise, in other than closing purchase transactions, covering shares of underlying stock in which it is authorized to invest its funds. Purchase of stock resulting from the exercise of any such options by any domestic insurance company shall comply with and be subject to the provisions of T. C.A. 56-3-302, 56-3-303 and 56-3-304.

Authority: T.C.A. §§56-1-701, 56-3-302, 56-3-303, 56-3-304, 56-19-114, 56-21-104, 56-23-110, and 56-23-111.
Administrative History: Original rule filed January 21, 1976; effective February 20, 1976.

0780-1-32-.06 CLOSING SALE TRANSACTIONS. Any domestic insurance company can engage in and effectuate closing sale transactions.

Authority: T.C.A. §§56-1-701, 56-3-302, 56-3-303, 56-3-304, 56-19-114, 56-21-104, 56-23-110, and 56-23-111.
Administrative History: Original rule filed January 21, 1976; effective February 20, 1976.

0780-1-32-.07 ACCOUNTING FOR TRANSACTIONS IN EXCHANGE-TRADED CALL OPTIONS

- (1) For the purpose of this regulation:
 - (a) The price received for selling an exchange-traded call option shall not be included in income at the time of receipt, but shall be carried in a deferred account until one of the following occurs (a) the call option expires through the passage of time, (b) the company sells the underlying stock pursuant to the exercise of the call option, or (c) the company engages in a closing purchase transaction.
 - (b) If the obligation under such call option expires through the passage of time, the price for the option shall be treated as income received at the time of such expiration.
 - (c) If the underlying stock is sold pursuant to the exercise of such call option, the price received for the option shall be treated as increasing the amount realized upon the sale of the stock and shall be included in determining capital gain or loss.

(Rule 0780-1-32-.07, continued)

- (d) If the obligation under such call option is terminated through a closing purchase transaction, the difference between the price received from the sale of the call option and the price paid in the closing purchase transaction shall be treated, at the time of such closing purchase transaction, as an addition to or deduction from income, as the case may be.

(2)

- (a) The price paid for an exchange-traded call option shall be treated as a capital expenditure.
- (b) If such call option is sold prior to exercise; any gain or loss shall be treated as capital gain or loss.
- (c) If such call option expires without exercise, the expiration shall be treated as a sale of the call option on the expiration date, and the resultant loss shall be treated as a capital loss.
- (d) If such call option is exercised, the price paid for it shall be added to the price paid for the stock and thus treated as a capital expenditure.

Authority: T.C.A. §§56-1-701, 56-3-302, 56-3-303, 56-3-304, 56-19-114, 56-21-104, 56-23-110, and 56-23-111.

Administrative History: Original rule filed January 21, 1976; effective February 20, 1976.

0780-1-32-.08 VALUATION

- (1) Provided Section 7A.1 hereof has been complied with, stock with respect to which an exchange-traded call option has been sold shall be valued, so long as the obligation under the options exists, at the lesser of (a) the exercise price of the option or (b) the current market price of the stock.
- (2) Each unexercised and unexpired exchange-traded call option held by a domestic insurance company shall be valued at the current market price therefor on an exchange.

Authority: T.C.A. §§56-1-701, 56-3-302, 56-3-303, 56-3-304, 56-19-114, 56-21-104, 56-23-110, and 56-23-111.

Administrative History: Original rule filed January 21, 1976; effective February 20, 1976.